

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 /106 W

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R 032007Z OCT 75

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3803

INFO USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 02 PARIS 25720

PASS TREASURY AND FEDERAL RESERVE

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TAGS: EALR, EFIN, EGEN, FR

SUBJ: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 24349, SEPTEMBER 19, 1975

1. SUMMARY: FOLLOWING UNVEILING OF NEW ECONOMIC
SUPPORT PROGRAM AND PRESENTATION OF 1976 BUDGET, GOF
CONTINUES VERBAL CAMPAIGN TO BOLSTER BUSINESS CONFIDENCE
-- THE KEY TO ITS APPARENT HOPES FOR A GRADUAL,
INVESTMENT-LED RECOVERY OF FRENCH ECONOMY. SUCH
"CAUTIOUS OPTIMISM" AS VOICED BY FINANCE MINISTER
FOURCADE MAY ALSO BE DESIGNED TO UNDERCUT MOUNTING
COMPLAINTS THAT NEITHER ECONOMIC-SUPPORT PROGRAM NOR
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1976 BUDGET PROVIDES MUCH DIRECT STIMULATION TO THE

ECONOMY. NEVERTHELESS, LATEST BUSINESS SURVEYS DO SHOW SOME SIGNS THAT GRADUAL UPTURN IN ACTIVITY MAY BE UNDERWAY, WHILE AUGUST PRICE FIGURES INDICATE RATE OF PRICE INFLATION HAS NOT ACCELERATED (OR DECELERATED) FOR FOUR CONSECUTIVE MONTHS. END SUMMARY.

2. GOF SEEKING TO BOOST CONFIDENCE IN ECONOMIC UPTURN--

HAVING JUDICIOUSLY ADMINISTERED WHAT IT CONSIDERS TO BE NON-INFLATIONARY STIMULATION TO THE FRENCH ECONOMY, THE GOF HAS RESUMED ITS ARGUMENT THAT ECONOMIC RECOVERY IS JUST AROUND THE CORNER. COMBINED EFFECTS OF NEW ECONOMIC-SUPPORT PROGRAM (REFTEL AND PARIS 23788) AND 1976 BUDGET WITH ITS "SYMBOLIC SURPLUS" (PARIS 25033) SHOULD SUSTAIN INTERNAL DEMAND SUFFICIENTLY TO AVOID FURTHER WORSENING OF THE ECONOMY, BUT COMPLAINTS ARE MOUNTING THAT NEITHER PROVIDES SUFFICIENT STIMULATION TO INDUCE AN UPTURN IN 1976. (NEARLY HALF OF RESPONDENTS TO AN OCT 1 POLL SAID FRENCH ECONOMY WOULD NOT BE OUT OF RECESSION BY END OF NEXT YEAR.)

RESPONDING TO THESE COMPLAINTS, FINANCE MINISTER FOURCADE SAID IN TELEVISION INTERVIEW OCT 1 THAT ECONOMIC UPTURN ALREADY UNDERWAY, AND THAT FRENCH ECONOMY WOULD BE "OUT OF THE TUNNEL" BY MID-1976. (NOTE: THIS COMPARES WITH LATEST OFFICIAL FORECAST OF 4.7 PERCENT REAL GROWTH IN 1976, FOLLOWING EXPECTED 2.5 PERCENT REAL DECLINE THIS YEAR. ONLY GRADUAL UPTURN IS PROJECTED FOR FIRST HALF 1976, WITH STRONGER GROWTH IN SECOND.) FOURCADE REITERATED, HOWEVER, THAT PRICE INFLATION REMAINS EXCESSIVE AND MUST NOT BE EXACERBATED BY OFFICIAL EFFORTS TO BOLSTER THE ECONOMY.

3. SIGNS OF BUSINESS RECOVERY APPEARING --

BUSINESSMEN RESPONDING TO SEPTEMBER SURVEY CONDUCTED BY INSEE (NATIONAL STATISTICS INSTITUTE) INDICATED THAT BEGINNINGS OF AN ECONOMIC UPTURN MAY BE IN THE AIR, WITH CONFIDENCE UP SOMEWHAT SINCE MID-SUMMER AND OUTLOOK FOR GRADUAL RISE IN PRODUCTION UNCLASSIFIED

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DURING REMAINDER OF THIS YEAR. DELIVERIES REPORTEDLY HAVE ALSO PICKED UP SINCE THE SUMMER MONTHS, PERMITTING SOME LIQUIDATION OF EXCESSIVELY-HIGH INVENTORIES OF FINISHED GOODS. DECLINE IN UNFILLED ORDERS HAS APPARENTLY CEASED.

AMONG SECTORS, PRODUCERS OF CONSUMER GOODS REPORT-EDLY FACE MUCH BETTER PROSPECTS THAN HERETOFORE, WITH

AUTOMOBILE AND TEXTILE INDUSTRIES ALREADY EXPERIENCING
TENTATIVE RECOVERY. INTERMEDIATE-GOODS SECTOR ALSO
FACING A RISE IN DOMESTIC DEMAND, PARTICULARLY BY THE
BUILDING INDUSTRY. STOCKS REMAIN EXCESSIVELY HIGH IN
CAPITAL-EQUIPMENT SECTOR, HOWEVER, WITH LITTLE
IMPROVEMENT SHOWN IN LEVEL OF ORDERS.

4. PRICES RISE 0.7 PERCENT IN AUGUST --

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RETAIL PRICES INCREASED BY 0.7 PERCENT FOR
FOURTH CONSECUTIVE MONTH IN AUGUST, BRINGING YEAR-OVER-
YEAR PRICE INFLATION TO 11.0 PERCENT. INSEE CONSUMER
PRICE INDEX SET AT 153.8 IN AUGUST, UP FROM 152.8

THE MONTH BEFORE AND FROM 138.6 IN AUGUST 1974. OVER THREE-MONTH PERIOD ENDING IN AUGUST, OVERALL PRICE INDEX ADVANCED AT AN ANNUAL RATE OF 8.4 PERCENT.

AUGUST PRICE INCREASES LED BY 1 PERCENT RISE IN RETAIL FOOD PRICES. PRICES FOR SERVICES WERE UP BY 0.8 PERCENT, WHILE PRICES FOR MANUFACTURED GOODS ROSE 0.4 PERCENT.

5. PRICE CONTROLS EXTENDED --
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SYSTEM OF OFFICIAL PRICE CONTROLS ON INDUSTRIAL PRODUCTS HAS BEEN EXTENDED ON LIMITED BASIS FOR ANOTHER SIX MONTHS, ACCORDING TO SEPTEMBER 25 ANNOUNCEMENT BY NATIONAL PRICE COUNCIL. INSTITUTED IN SEPTEMBER 1974, AT A TIME WHEN PRICES FOR MANUFACTURES WERE LEADING THE RISE IN CONSUMER PRICE INDEX, SYSTEM OF CONTROLS MOSTLY REPRESENTED A TIGHTENING OF EXISTING RESTRICTIONS (SEE PARIS 23450 OF 1974). NEVERTHELESS, INDUSTRIAL PRICES HAVE BEEN DECELERATING SINCE EARLY 1975, RISING AT SLOWER PACE THAN SERVICES OR FOOD COMPONENTS OF CPI. LATEST PROLONGATION OF PRICE CONTROLS WAS COUPLED WITH LIMITATION IN THEIR SCOPE: SEVERAL PRODUCTS IN CAPITAL-EQUIPMENT AND INTERMEDIATE-GOODS SECTORS EXEMPTED, SO THAT CONTROLS WILL HENCEFORTH APPLY MAINLY TO CHEMICALS AND MACHINERY INDUSTRIES.

6. "ANTI-INFLATION LEVY" HEADED FOR SUSPENSION --

FRANCE'S "ANTI-INFLATION LEVY," WHICH THEORETICALLY WENT INTO FORCE AT THE BEGINNING OF 1975 BUT HAS YET TO BE COLLECTED, MAY SOON BE SUSPENDED ONCE AGAIN -- BUT THIS TIME FOR "LEGITIMATE" REASONS. THE COMPLEX AND HIGHLY-CONTROVERSIAL MECHANISM TO ATTACK "COST-PUSH" INFLATION BY FISCAL MEANS (SEE PARIS A-206 FOR DETAILS) WAS DESIGNED TO BE OPERATIVE WHEN PRICES FOR MANUFACTURES ARE RISING BY AT LEAST 1.5 PERCENT QUARTERLY. LATEST PRICE FIGURES FOR AUGUST HAVE BROUGHT THE MANUFACTURES INDEX BELOW THAT THRESHOLD, THEREBY LEADING TO AUTOMATIC SUSPENSION OF THE LEVY. PREVIOUS SUSPENSION OF THE LEVY HAVE BEEN ORDERED FOR "EXTRAORDINARY" REASONS -- PRIMARILY, FINANCIAL PRESSURES ON FRENCH FIRMS.

7. OTHER REPORTS SUBMITTED DURING THE PERIOD --

TELEGRAMS:

25033 1976 BUDGET 9/26/75

25055 MONETARY SUMMIT 9/29/75
25212 ECONOMIC SUMMIT MEETING 9/30/75

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AIRGRAMS:

A-422 FRENCH FOREIGN EXCHANGE 9/19/75
HOLDINGS

A-426 FRENCH FOREIGN EXCHANGE 9/26/75
HOLDINGS

A-429 TRADE WITH COMMUNIST AREAS 9/30/75

A-430 VALUE OF TRADE IN 9/30/75
MANUFACTURES

RUSH

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